

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

FINANCIAL REPORT

Year Ended June 30, 2006

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
FINANCIAL REPORT
Year Ended June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

School Board Members
Grant Township School District No. 2
Copper Harbor, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund of Grant Township School District No. 2, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Grant Township School District No. 2's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Grant Township School District No. 2, as of June 30, 2006 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 10, 2006 on my consideration of Grant Township School District No. 2's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 8 and 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

October 10, 2006

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Management's Discussion and Analysis

This section of Grant Township School District No. 2's ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section. A comparative analysis with the prior year has been provided.

Overview of the Financial Statements

This annual report consists of three parts: 1) management's discussion and analysis (this section), 2) basic financial statements, and 3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the District. The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information with a comparison of the District's budget for the year.

District-wide Financial Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base, the condition of the school building and the long-term cash flow needs of the District.

In the district-wide financial statements, the District's activities are reported as:

Governmental activities – All of the District's basic services are included here, such as instruction, transportation and administration. Property taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has only one fund, the General Fund

Financial Analysis of the District as a Whole

Net assets – The District's combined net assets were less on June 30, 2006, than the prior fiscal year by \$17,412. The change is primarily due to the following: 1) general fund expenditures exceeded revenues during the 2005-06 fiscal year and 2) fixed assets continue to depreciate.

The table below provides a summary of the District's net assets as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Assets:		
Current	\$ 200,898	\$ 210,366
Capital assets, net of accumulated depreciation	<u>33,197</u>	<u>37,017</u>
Total Assets	<u>234,095</u>	<u>247,383</u>
Liabilities – Current	<u>17,350</u>	<u>13,226</u>
Net Assets:		
Invested in capital assets, net of related debt	33,197	37,017
Unrestricted	<u>183,548</u>	<u>197,140</u>
Total Net Assets	<u>\$ 216,745</u>	<u>\$ 234,157</u>

The table below provides a summary of the District's change in net assets for the years ended June 30, 2006 and 2005:

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 3,715	\$ 4,500
Operating grants and contributions	1,350	2,041
General revenues:		
Property taxes	89,402	81,540
Investment earnings	3,258	2,327
State foundation allowance	<u> </u>	<u>655</u>
Total Revenues	<u>97,725</u>	<u>91,063</u>

Expenses:		
Instruction	59,117	55,350
Support services	<u>56,020</u>	<u>52,998</u>
Total Expenses	<u>115,137</u>	<u>108,348</u>
Decrease in Net Assets	<u>\$ (17,412)</u>	<u>\$ (17,285)</u>

As reported in the statement of activities, the cost of governmental activities was \$115,137. These activities were primarily funded by property taxes.

A reconciliation of the decrease in net assets to the change in fund balance appears on page 12.

Financial Analysis of the District's General Fund

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized when incurred.

The District's instruction and support services activities are reported in the General Fund. The District's combined fund balance was \$169,338.

A reconciliation of the change in fund balance to the decrease in net assets appears on page 11.

Capital Assets

At June 30, 2006, the District had \$33,197 invested in capital assets.

	<u>2006</u>	<u>2005</u>
Building and improvements	\$ 31,000	\$ 31,000
Vehicle	<u>32,000</u>	<u>32,000</u>
Total Capital Assets	63,000	63,000
Accumulated depreciation	<u>(29,803)</u>	<u>(25,983)</u>
Net Capital Assets	<u>\$ 33,197</u>	<u>\$ 37,017</u>

There were no additions during the current year.

General Fund Budgetary Highlights

Over the course of the year, the District did not revise its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and only budget amounts compared with amounts actually paid and received is provided in the Required Supplementary Information section of these financial statements.

Budgeted and actual revenues for the General Fund were \$101,600 and \$109,465, respectively. Budgeted and actual expenditures for the General Fund were \$109,984 and \$111,317, respectively. Actual expenditures exceeded budgeted amounts by \$1,333.

General Economic Factors

The District depends primarily on local non-homestead property taxes to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the District in 2007.

Contacting the School District's Financial Management

The financial report is designed to provide users of the report with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report, contact Ms. Peggy Kauppi, P.O. Box 74, Copper Harbor, Michigan 49918.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Statement of Net Assets
June 30, 2006**

	<u>Governmental Activities</u>
Assets	
Cash	\$ 115,634
Investments	70,781
Receivables	14,483
Capital assets, net of accumulated depreciation	<u>33,197</u>
Total Assets	<u>234,095</u>
Liabilities	
Accounts payable and other current liabilities	<u>17,350</u>
Net Assets	
Invested in capital assets, net of related debt	33,197
Unrestricted	<u>183,548</u>
Total Net Assets	<u>\$ 216,745</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Statement of Activities Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Governmental Activities</u>
Primary government:				
Governmental activities:				
Instruction	\$ 59,117	\$	\$ 16	\$ (59,101)
Support services	<u>56,020</u>	<u>3,715</u>	<u>1,334</u>	<u>(50,971)</u>
Total governmental activities	<u>\$ 115,137</u>	<u>\$ 3,715</u>	<u>\$ 1,350</u>	<u>(110,072)</u>
	General revenues:			
	Property taxes			89,402
	Unrestricted investment earnings			<u>3,258</u>
	Total general revenues			<u>92,660</u>
	Change in Net Assets			(17,412)
	Net Assets – Beginning			<u>234,157</u>
	Net Assets – Ending			<u>\$ 216,745</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Balance Sheet Governmental Funds June 30, 2006

	Total Governmental Fund – General Fund
Assets	
Cash	\$ 115,634
Receivables:	
Taxes	10,460
Accounts	106
Due from other governmental units	3,750
Interest	167
Investments	<u>70,781</u>
Total Assets	<u>\$ 200,898</u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 4,097
Accrued payroll and other liabilities	9,601
Due to other governmental units	3,652
Deferred revenue	<u>14,210</u>
Total Liabilities	31,560
Fund Balance – Unreserved and undesignated	<u>169,338</u>
Total Liabilities and Fund Balances	<u>\$ 200,898</u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets	
Total Fund Balances – Governmental Fund	\$ 169,338
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$63,000 and the accumulated depreciation is \$29,803.	33,197
Receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the fund.	<u>14,210</u>
Total Net Assets – Governmental Activities	<u>\$ 216,745</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2006

	Total Governmental Fund – General Fund
Revenues	
Local sources	\$ 100,166
Federal sources	1,334
Intergovernmental and other sources	<u>7,965</u>
Total Revenues	<u>109,465</u>
Expenditures	
Instruction	59,117
Support services:	
General administration	11,211
Operations and maintenance	8,322
Transportation	<u>32,667</u>
Total Expenditures	<u>111,317</u>
Net Change in Fund Balance	(1,852)
Fund Balance – Beginning	<u>171,190</u>
Fund Balance – Ending	<u>\$ 169,338</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Fund to the Statement of Activities

Total Net Change in Fund Balance – Governmental Fund	\$ (1,852)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

(3,820)

Because some revenues will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased this year by this amount.

(11,740)

Change in Net Assets of Governmental Activities	<u>\$ (17,412)</u>
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The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2006

Note 1 Summary of Significant Accounting Policies

Grant Township School District No. 2 ("District") provides educational services to approximately 3 area students. The District receives funding primarily from local sources. Educational facilities include one school building. The District operates under an elected five member Board of Education. The accounting policies of the District conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The following is a summary of the significant accounting policies used by the District.

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board ("GASB") for determining the various governmental organizations to be included in the reporting entity. The criteria established by the GASB for determining which organizations are a part of the reporting entity and which are legally separate component units includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. There are no component units, as defined in GASB Statement 14, which are required to be included in the District's reporting entity.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. Governmental activities include programs supported primarily by taxes and other intergovernmental revenues. The District has no business-type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, certain governmental payments and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for the District's governmental fund. The District has no proprietary or fiduciary funds.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2006

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District has only one governmental fund which is the General Fund. This fund is used to account for all financial resources. Revenues are primarily derived from property taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The District did not have any short-term investments at June 30, 2006. Investments are stated at cost, which approximates fair value, and include only certificates of deposit.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2006

Receivables and Payables – The District’s property tax is levied each July 1 on the taxable valuation of property located within the District as of the preceding January 1. Property taxes are payable without interest on or before September 14 and without penalty on or before February 14. Penalties are collected from February 14 to March 1 at which time property taxes become delinquent.

Property taxes collected more than 60 days after June 30, 2006 are not recognized as revenue of the current year but rather as deferred revenue in the liability section of the balance sheet. Of the \$10,460 recorded as property taxes receivable in the General Fund no amount was collected within 60 days of June 30, 2006. The \$10,460 is recorded as deferred revenue.

Capital Assets – Capital assets, which include property and equipment, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In the case of donations, the District values these capital assets at the estimated fair value of the item at the date of its donation.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	10 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 25 years

Compensated Absences – All compensated absences are accrued when incurred in the district-wide financial statements. A liability for this amount is reported in the governmental fund only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity – When applicable, in the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2006

Note 2 Stewardship, Compliance and Accountability

A. Budgetary Information

A budget is adopted by the District's Board of Education for the General Fund. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for this fund. The budget is adopted at the function level and control is exercised at the function level. All annual appropriations lapse at year end.

B. Excess of Expenditures over Appropriations in Budgeted Fund

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated by \$1,333.

Note 3 Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The District is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The District has designated three banks for the deposit of District funds. The District's deposits are in accordance with statutory authority.

At June 30, 2006 the District's carrying amount of cash and investments (certificates of deposit only) was \$186,415 with a corresponding bank balance of \$188,109, all of which was covered by federal depository insurance.

Note 4 Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2006

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets being depreciated:				
Building and improvements	\$ 31,000	\$	\$	\$ 31,000
Vehicle	<u>32,000</u>	<u></u>	<u></u>	<u>32,000</u>
Subtotal	<u>63,000</u>	<u></u>	<u></u>	<u>63,000</u>
Accumulated depreciation:				
Building and improvements	(7,050)	(620)		(7,670)
Vehicle	<u>(18,933)</u>	<u>(3,200)</u>	<u></u>	<u>(22,133)</u>
Subtotal	<u>(25,983)</u>	<u>(3,820)</u>	<u></u>	<u>(29,803)</u>
Governmental activities capital assets, net	<u>\$ 37,017</u>	<u>\$ (3,820)</u>	<u>\$</u>	<u>\$ 33,197</u>

Depreciation expense was charged to activities of the District as follows:

Governmental Activities	
Operations and maintenance	\$ 620
Transportation	<u>3,200</u>
Total depreciation expense – governmental activities	<u>\$ 3,820</u>

Note 5 Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue consisted of delinquent property taxes of \$10,460 and \$3,750 in intergovernmental revenue.

Note 6 Employee Retirement System

Description of Plan

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement, survivor and disability benefits and post retirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2006

operates under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy

Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work from January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 14.87% of payroll through September 30, 2005 and 16.34% effective October 1, 2005 through June 30, 2006. The contribution requirements of the plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the years ended June 30, 2006, 2005 and 2004 were approximately \$7,795, \$6,387 and \$5,389, respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2006

Note 7 Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees and natural disasters. All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Required Supplementary Information

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006**

	Original & Final Budget	Actual
Revenues		
Local sources	\$ 93,700	\$ 100,166
State sources	300	
Federal sources	100	1,334
Intergovernmental and other sources	<u>7,500</u>	<u>7,965</u>
Total Revenues	<u>101,600</u>	<u>109,465</u>
Expenditures		
Instruction	57,464	59,117
Support services:		
General administration	13,075	11,211
Operations and maintenance	9,430	8,322
Transportation	<u>30,015</u>	<u>32,667</u>
Total Expenditures	<u>109,984</u>	<u>111,317</u>
Net Change in Fund Balance	(8,384)	(1,852)
Fund Balance – Beginning	<u>171,190</u>	<u>171,190</u>
Fund Balance – Ending	<u>\$ 162,806</u>	<u>\$ 169,338</u>

Other Supplementary Information

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

School Board Members
Grant Township School District No. 2
Copper Harbor, Michigan

I have audited the financial statements of the governmental activities and the major fund of Grant Township School District No. 2, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued my report thereon dated October 10, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Grant Township School District No. 2's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition, which is described below. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Grant Township School District No. 2's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

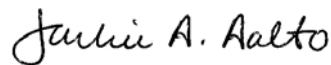
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Township School District No. 2's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to the management of the Grant Township School District No. 2 in a separate letter dated October 10, 2006.

This report is intended solely for the information and use of the Board members, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

October 10, 2006

October 10, 2006

School Board Members
Grant Township School District No. 2
Copper Harbor, MI 49918

In planning and performing my audit of the financial statements of Grant Township School District No. 2 for the year ended June 30, 2006, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect Grant Township School District No. 2's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Internal Control

1. The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the School Board remains involved in the financial affairs of the District to provide oversight and independent review functions. As part of these functions and the strengthening of internal controls, I recommend that the School Board perform the following:
 - a. Adopt a credit card policy.
 - b. Adopt an investment policy.
2. The District does not have a formal written conflict of interest policy. I recommend that the District adopt a written conflict of interest policy.
3. The District does not have a documented capitalization policy. I recommend the District institute a capitalization policy for fixed assets, including specifying an amount for which disbursements should be capitalized. Having such a policy helps to ensure fixed assets are recorded appropriately in accordance with implementation of GASB 34.
4. Public Act 2 of 1968 as amended through Act 493 of 2000 Section 18 provides that a School District shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2006, expenditures were incurred in excess of amounts appropriated in the General Fund. It is recommended that the Board of Education and school administration work together to fully comply with all provisions of the Act.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the June 30, 2006 financial statements, and this report does not affect my report on those financial statements dated October 10, 2006. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the Board membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA